

Pan-Jamaican Investment Trust Ltd

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 1998

1. Significant Accounting Policies

(a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain securities, investment in subsidiaries, investment properties and fixed assets.

(b) Consolidation

The group financial statements comprise the financial statements of the company, its subsidiaries and associated companies made up to 31 December 1998 except for Long Pond Estates Limited which is made up to 30 September 1998.

All amounts are stated in Jamaican dollars. At 31 December the rate of exchange was approximately \$37 to US\$1 (1997 - J\$36 to US\$ 1).

The wholly and partly owned subsidiaries at 31 December 1998 are:

	Principal Activities	Proportion of issued equity capital held by	
		Company	Subsidiary
First Life Insurance Company Limited	Life and Health Insurance	73%	
Jamaica Property Company Limited	Office Rental		100%
Jamaica Property Development Limited	Property Management		100%
Jamaica Property Management Limited	Property Management		100%
Pan Caribbean Merchant Bank Limited	Merchant Banking		100%
Pan Caribbean Investments Limited	Financial Services		100%
Portfolio Partners Limited	Investment Management		100%
Hardware & Lumber Limited	Trading	69%	
H. & L. True Value Limited	Trading		100%
H & L Agri & Marine Company Limited	Trading		100%
Hole-In-The-Wall Limited	Trading		100%
Office Services Limited	Construction and Janitorial Services		100%
Wherry Wharf Sales Company Limited	Trading		93%
Jamaican Floral Exports Limited	Horticulture	80%	
Jamaican Heart Limited	Horticulture		100%
Pan-Jamaican Mortgage Society Limited	Financial Services	100%	
Scotts Preserves Limited	Manufacturing	100%	
Busha Browne's Company Limited	Distribution		100%
Busha Browne's Company Limited (Incorporated in the Bahamas)	Distribution		100%
Scotts of Jamaica Limited	Distribution		100%

The company and all subsidiaries, except where indicated otherwise, are incorporated in Jamaica.

During the year, a subsidiary, Jamaica Floral Exports (1993) Limited, was sold to a company controlled by certain directors of Pan-Jamaican Investment Trust Limited on the basis of an independent valuation.

(c) Expenses

Expenses are charged to income as incurred except for amounts allocated to lands awaiting development, construction in progress and developments for sale, subject to carrying costs not exceeding realisable value. Expenses which relate to future periods are included in deferred expenditure and amortised over the expected periods of benefit.

(d) Fixed assets and depreciation

Fixed assets are stated at cost, with the exception of certain freehold land and buildings which are stated at depreciated replacement cost or market value as computed in 1977. Additions subsequent to valuation are stated at cost. The cost or valuation of fixed assets is written off on the straight line method over the expected useful lives of the assets held at the beginning of the year. The expected average useful lives are as follows:

Buildings	20 to 50 years
Plant, furniture and equipment	8 to 15 years
Motor vehicles	5 years
Leasehold improvement	Life of lease
Leased assets	Life of lease

Gains and losses arising on disposal of fixed assets are dealt with in the profit and loss account. Repairs and maintenance expenditure are charged to profit and loss account.

(e) Investment properties

Freehold land and buildings held for investment are stated at market value. Valuations are revised on the basis of annual appraisals carried out by independent property appraisers and valuers.

(f) Investments

Investments are stated as follows:

- (i) Quoted equities held by the insurance and banking subsidiaries at market value and all other equities at cost with adjustment for any permanent diminution in value;
- (ii) Unquoted equities are stated at cost with adjustment for any permanent diminution in value;

- (iii) Government of Jamaica and other securities at cost after provision for any anticipated loss on realisation;
 - (iv) Mortgage loans at the aggregate of the unpaid principal;
 - (v) Policy loans at the aggregate of the unpaid balance;
 - (vi) Investments in associated companies are accounted for using the equity method of accounting;
 - (vii) Assets held under repurchase agreement are stated at cost;
 - (viii) Commercial paper investment is stated at cost;
 - (ix) Deposits are stated at cost;
 - (X) Equity investment is stated at the cost of the investment plus the group's and company's share of reserves arising since acquisition of the investment.
- (g) Investment reserves

The group's life insurance subsidiary, First Life Insurance Company Limited, reflects realised gains or losses together with unrealised appreciation or depreciation in market values of quoted equities and investment properties in investment reserves. A percentage of this reserve is transferred annually to the profit and loss account.

- (h) Reserve for future benefits

The reserve for future benefits to policyholders is calculated by the group's actuary based on the details of business in force at the end of First Life Insurance Company Limited's accounting year, and represents the amount required, together with future premiums and interest, to provide for future benefits on insurance and annuity contracts. These reserves are calculated on the policy premium method, using interest and mortality assumptions appropriate to the policies in force. Any adjustment to the reserves is reflected in the year to which it relates.

(i) Taxation and deferred taxation

Taxation charged in these financial statements is based on the profit for the year. Deferred taxation is recorded only in respect of timing differences which are expected to reverse in the foreseeable future.

(j) Foreign currency translation

Transactions in foreign currencies are converted at the rate of exchange ruling at the date of the transaction. Balances due or payable in foreign currencies are translated at rates of exchange ruling at the balance sheet date, Losses or gains are reflected in the Profit and Loss account.

(k) Inventories

Inventories are stated at the lower of cost and net realisable, value, cost being determined on the FIFO and average cost bases.

(l) Finance leases

The gross investment in finance leases net of unearned income is recorded as a receivable balance. Income is recognised over the term of the lease.

(m) Provision for credit losses

Provision for credit losses is based on management's evaluation of the potential losses in the credit portfolio, taking into consideration the business and economic conditions.

(n) Premium income

Premiums are recognised as earned when due and are stated net of reinsurance premiums.

(o) Retirement benefit plans

Retirement benefits are actuarially determined based on career earnings. Employers' contributions to fund past service deficiencies and future service liabilities are made monthly and are charged to the profit and loss account.

2. Consolidated Profit and Loss Account

(a) Group profit before taxation is arrived at after charging/(crediting) the following items:

	1998	1997
	\$'000	\$'000
Interest earned from banking operations	(40,848)	(35,546)
Investment income	(164,119)	(101,120)
Directors' emoluments		
Fees	39	74
Other	21,950	19,637
Auditors' remuneration		
Current year	10,759	11,810
Prior year	132	71
Depreciation	24,340	31,608
Provision for credit losses	10,063	6,229
Amortisation of deferred expenditure	8,144	3,896
Loss/(Profit) on disposal of subsidiary	1,331	(3,323)
Share of profit in associated companies	<u>(495)</u>	<u>(7,874)</u>

(b) Interest

	1998	1997
	\$'000	\$'000
Mortgage debentures and fixed loans	13,346	11,260
Bank overdraft and other	37,396	40,505
Interest on banking operations	<u>12,611</u>	<u>22,027</u>
	<u>63,353</u>	<u>73,792</u>

(c) The charge for taxation comprises:

	1998	1997
	\$'000	\$'000
Income tax at 33 1/3%	10,305	3,468
Tax credit on bonus issue of shares	(1,395)	-
Prior year overprovision of income tax	-	1,880
Premium tax	2,375	2,837
Investment income tax	10,963	8,774
Contractors' levy	300	-
Stamp duties	<u>3,025</u>	<u>2,136</u>
	<u>25,573</u>	<u>15,335</u>

Subject to agreement with the Commissioner of Income Tax, tax losses available for set off against future profits of certain subsidiaries amounted to \$236,606,000 (1997 - \$228,121,000).

	1998	1997
	\$'000	\$'000
(d) Net loss dealt with in the financial statements of the holding company was	<u>(11,515)</u>	<u>(24,250)</u>

3. Dividends

The company made capital distribution of 2 cents per share.

4. Earnings per Stock Unit

The calculation of earnings per stock unit is based on:-

- (i) the group profit after taxation and minority interest;
- (ii) the weighted average number of units in issue during the year (1998 - 158,040,000; 1997 - 158,040,000).

5. Fixed Assets

The Group

	Land & Buildings \$'000	Leasehold Improvement \$'000	Work in Progress \$'000	Equipment & Furniture \$'000	Motor Vehicles \$'000	Total \$'000
Cost or Valuation						
1 January 1998	23,373	29,628	24,889	163,984	27,309	269,183
Additions	88	199	7,086	24,015	5,371	36,759
Reclassifications	-	-	(5,560)	5,560	-	-
Disposals	-	-	-	(2,612)	(8,012)	(10,624)
Assets in subsidiary disposed of	(1,951)	-	-	(18,165)	(732)	(20,848)
31 December 1998	<u>21,510</u>	<u>29,827</u>	<u>26,415</u>	<u>172,782</u>	<u>23,936</u>	<u>274,470</u>
Depreciation -						
1 January 1998	15,968	12,978	-	72,062	13,840	114,848
Charge for the year	3,858	2,361	-	13,765	4,356	24,340
On disposals	-	-	-	(2,126)	(6,677)	(8,803)
Depreciation relieved on disposal of subsidiary	(98)	-	-	(8,639)	(293)	(9,030)
31 December 1998	<u>19,728</u>	<u>15,339</u>	<u>-</u>	<u>75,062</u>	<u>11,226</u>	<u>121,355</u>
Net Book Value -						
31 December 1998	<u>1,782</u>	<u>14,488</u>	<u>31,975</u>	<u>97,720</u>	<u>12,710</u>	<u>153,115</u>
31 December 1997	<u>7,405</u>	<u>16,650</u>	<u>24,889</u>	<u>91,922</u>	<u>13,469</u>	<u>154,335</u>

PAN-JAMAICAN INVESTMENT TRUST LTD.

The Company

	Leasehold Improvement \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Total \$'000
Cost -				
1 January 1998	199	2,642	1,853	4,694
Additions	-	126	-	126
Disposals	-	-	(590)	(590)
31 December 1998	<u>199</u>	<u>2,768</u>	<u>1,263</u>	<u>4,230</u>
Depreciation -				
1 January 1998	148	1,525	1,045	2,718
Charge for the year	15	196	308	519
On disposals	-	-	(472)	(472)
31 December 1998	<u>163</u>	<u>1,721</u>	<u>881</u>	<u>2,765</u>
Net Book Value -				
31 December 1998	<u>36</u>	<u>1,047</u>	<u>382</u>	<u>1,465</u>
31 December 1997	<u>51</u>	<u>1,117</u>	<u>808</u>	<u>1,976</u>

6. Investment Properties

Investment properties were valued at current market value as at 31 December 1998 by The C.D. Alexander Company Realty Limited, property appraisers and valuers.

7. Investments

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Associated companies -				
Cost	55,388	55,273	48,358	48,358
Group's/company's share of -				
Net loss	(44,820)	(45,315)	(36,144)	(36,144)
Write down of investment	(12,214)	(12,214)	(12,214)	(12,214)
Reserves	<u>45,412</u>	<u>45,445</u>	<u>-</u>	<u>-</u>
	43,766	43,189	-	-
Equity Investment	54,655	55,710	34,905	-
Quoted	68,827	71,015	563	35,012
Unquoted	3,507	7,468	19,550	562
Government of Jamaica and other securities	889,664	400,220	-	22,410
Mortgage loans	25,687	22,774	-	-
NHT contributions	<u>161</u>	<u>161</u>	<u>12</u>	<u>12</u>
	<u>1,086,267</u>	<u>600,537</u>	<u>55,030</u>	<u>57,996</u>

The group's associated companies and shareholdings are as follows:-

Proportion held by First Life Insurance Company Limited -

Impan Properties Limited	-	20%
Knutsford Holdings Limited	-	28%
St. Andrew Developers Limited	-	66%

Proportion held by the company -

Long Pond Estates Limited	-	40%
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The Group's investment in St. Andrew Developers Limited is intended to be short term and, as a result, this is accounted for on the equity method.

The National Housing Trust contributions were made prior to 31 July 1979 and are recoverable in the years 2001 to 2004.

8. Other Insurance and Banking Assets

	The Group	
	1998	1997
	\$'000	\$'000
Loans on policies	24,642	27,154
Loans to customers and lease receivables	113,016	245,991
Accrued interest	72,961	48,117
Customers' liability under guarantees	26,484	26,462
Receivables	91,250	62,583
Cash resources	<u>67,960</u>	<u>65,692</u>
	<u>396,313</u>	<u>475,999</u>

- (a) Included in loans to customers and lease receivables is the group's investment in finance leases as follows:

	\$'000
Minimum lease payments receivable, less provision for losses	53,059
Less: Unearned finance income	<u>(13,139)</u>
	<u>39,920</u>

Minimum lease payments are receivable in the years ending 31 December:

	\$'000
1999	30,607
2000	18,046
2001	3,814
2002	<u>592</u>
	<u>53,059</u>

- (b) Cash resources include a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$16,165,000 (1997 - \$25,222,000). This amount is held on a non-interest bearing basis and is not available for investment or other use by the subsidiary.

9. Deferred Expenditure

Deferred expenditure comprises -

	The Group	
	1998 \$'000	1997 \$'000
Horticulture development costs	-	8,849
Other expenditure	<u>21,214</u>	<u>18,034</u>
	<u>21,214</u>	<u>26,883</u>

Horticulture development costs related to the subsidiary that was sold effective 1 January. Other expenditure is amortised over three to five years.

10. Bank Indebtedness

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Bank loans and overdrafts	38,033	48,145	4,337	12,755
Amounts included in -				
Current maturities	13,060	11,206	-	-
Long term liabilities	21,719	21,691	-	-
	<u>34,779</u>	<u>32,897</u>	<u>-</u>	<u>-</u>
Aggregate amount	<u>72,812</u>	<u>81,042</u>	<u>4,337</u>	<u>12,755</u>
Amount secured	<u>64,818</u>	<u>31,154</u>	<u>-</u>	<u>-</u>

11. Share Capital

	1998 \$'000	1997 \$'000
Authorised - Ordinary shares of 10c each	<u>17,500</u>	<u>17,500</u>
Issued and fully paid - Ordinary stock units of 10c each	<u>15,804</u>	<u>15,804</u>

12. Capital and Other Reserves

	The Group 1998 \$'000	The Company 1998 \$'000
Share premium - Balance at beginning and end of year	14,768	14,768
Realised capital reserves - Balance at beginning of year	269,061	279,085
Transfer (to)/from retained earnings - Capital distribution	(3,161)	3,161
Retained earnings capitalised	<u>4,968</u>	<u>-</u>
	<u>270,868</u>	<u>275,924</u>
Unrealised capital reserves - Balance at beginning of year	19,792	-
Arising during the year - Exchange gain on translation of foreign subsidiary	<u>854</u>	<u>-</u>
	<u>20,646</u>	<u>-</u>
Insurance and Banking Reserves - Investment reserves: Balance at beginning of year	393,272	-
Arising during the year - Realised and unrealised losses on investment properties	(16,032)	-

Transfer from special reserves	7,333	-
Realised and unrealised gain on other investments (net)	6,144	-
Transfer to ordinary life business revenue account	(49,620)	-
Other	<u>(3,931)</u>	<u>-</u>
	<u>337,166</u>	<u>-</u>
Special reserves (note 13):		
Balance at beginning of year	44,092	-
Transfer to investment reserves	(7,333)	-
Transfer from profit and loss -		
Insurance	1,954	-
Banking	<u>10,108</u>	<u>-</u>
	<u>48,821</u>	<u>-</u>
	<u>692,269</u>	<u>290,692</u>

13. Special Reserves

Insurance

First Life Insurance Company Limited has included actuarial reserves for future policyholder benefits as part of policyholders' funds and additional reserves that are required to be set aside by Insurance Regulatory Authorities as part of shareholders' funds. The Special Reserve represents:

- (a) The sum of the negative reserves which have been offset in the reserve for future benefits, and
- (b) The difference between the cash surrender value (CSV) of the policies and the reserve for future benefits, where the CSV is greater.

The reserve is non-distributable.

Banking

This represents the amount that Pan Caribbean Merchant Bank Limited is required to set aside under the licence under which it operates and is non-distributable.

14. Policyholders' Funds

	The Group	
	1998	1997
	\$'000	\$'000
Policyholders' funds comprise the following actuarial liabilities:		
Reserve for future benefits receivable	386,354	368,951
Deposit administration funds	524,965	408,106
Pooled pension funds	283,561	203,494
Policy dividends on deposit	15,260	18,425
Other policyholders' funds	784	1,455
	<u>1,210,924</u>	<u>1,000,431</u>

The actuary has given his opinion that the actuarial liabilities are adequate to provide for future payments under the terms of the policies in force.

15. Other Insurance and Banking Liabilities

	The Group	
	1998	1997
	\$'000	\$'000
Amounts due to other banks	52,397	41,809
Customers' deposits and savings accounts	118,159	105,238
Customers' liabilities under guarantees	26,484	26,462
Payables	63,768	75,265
Benefits payable to policyholders	14,337	14,667
Bank overdraft	7,476	99
	<u>282,621</u>	<u>263,540</u>

16. Long Term Liabilities

		The Group		The Company	
		1998	1997	1998	1997
		\$'000	\$'000	\$'000	\$'000
Secured loans -					
First mortgage debenture stocks					
9 1/2%	1975 - 1999	557	1,064	601	1,149
21%	1984 - 2001	500	500	500	500
13%	1976 - 2000	142	201	142	201
12%	1979 - 2003	1,167	1,329	1,307	1,489
21%	1988 - 1998	-	43	-	71
18 1/2%	1995 - 1999	3,000	6,000	3,000	6,000
22%	1985 - 2006	-	810	3,843	4,063
22%	1987 - 2007	-	-	1,226	1,279
First mortgage debentures					
22%	1989 - 2009	-	-	1,000	1,000
Bank of Nova Scotia Jamaica Limited					
Variable rate	1996 - 2001	681	717	-	-
Trafalgar Development Bank Limited					
32%	1990 - 1998	-	503	-	-
14%	1996 - 1999 (US\$101,309)	-	3,693	-	-
3%	1998 - 2002 (US\$320,833)	11,923	14,644	-	-
Variable rate	1990 - 1998	-	11	-	-
Citibank N.A.	(US\$330,000)				
Variable rate	1998 -2002	12,823	-	-	-
CIBC Jamaica Limited					
14%	1997 -2000	5,694	11,586	-	-
Victoria Mutual Building Society					
12%	1997 - 2001 (£1,000,00)	61,067	59,023	61,067	59,023

M F&G Trust & Merchant Bank Limited				
42% 1997-2001	-	914	-	-
Total Secured	<u>97,554</u>	<u>101,038</u>	<u>72,686</u>	<u>74,775</u>

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Unsecured loans -				
Variable rate loans repayable				
1994 - 1998		1,743	-	-
Variable rate Debt Bonds				
1997 - 1999	3,000	16,000	-	-
1998 - 2001	11,200	25,490	-	-
2000 - 2001	13,203	16,000	-	-
Pan Caribbean Merchant Bank Limited	-	-	-	783
First Life Insurance Company Limited	-	-	2,685	3,981
George and Branday Limited				
23% 1998 - 2000	2,505	-	-	-
Allied Insurance Brokers Limited				
12% 1997 - 2000	3,334	6,578	-	-
Total unsecured	<u>33,242</u>	<u>65,811</u>	<u>2,685</u>	<u>4,764</u>
	130,796	166,849	75,371	79,539
Less current maturities	<u>33,735</u>	<u>33,611</u>	<u>6,890</u>	<u>8,115</u>
	<u>97,061</u>	<u>133,238</u>	<u>68,481</u>	<u>71,424</u>

17. Retirement Benefit Plans

The company and its subsidiaries participate in contributory pension plans administered by First Life Insurance Company Limited. Benefits under the plans are based on the employees' earnings during recognised service.

(a) First Life Insurance Company Limited

The latest actuarial valuation which was carried out at 31 December 1995, revealed a past service surplus of \$4,084,000. The actuary has recommended that the employer contribute at a rate of 3.1% of members' earnings until the next valuation date, which should be no later than 31 December 1998. The employees contribute at 5%. Effective 1 January 1998, the company implemented the actuary's recommendation.

(b) Jamaica Property Company Limited

The latest actuarial valuation which was carried out at 31 December 1995 revealed that there was inadequate funding to provide the benefits under the plan and that there was a deficiency of \$3,248,000 as at that date.

In order to restore the solvency of the scheme, the actuaries have recommended that, allowing for members contribution at the rate of 5% of earnings, the employer should contribute 6% of members' pensionable earnings and that the valuation be conducted no later than 31 December 1998. The company has been contributing at the rate of 10% of members' pensionable earnings since 1996.

(c) Pan Caribbean Merchant Bank Limited

Based on the latest actuarial valuation which was carried out at 31 December 1995, the scheme is adequately funded.

(d) Hardware and Lumber Limited and its Subsidiaries

The company and most of its subsidiaries participate in a plan whose benefits are based on 2% of final five years' average salary for each year of service. The latest actuarial valuation, which was carried out at 31 December 1996, indicated that there was a past service deficiency of \$2,294,000. The trustees have implemented the actuary's recommendation that, effective 1 January 1997, the employer contributes at the rate of 6.2% of members' earnings until the next valuation date which should occur no later than 31 December 1999. The employer's contribution of 6.2% includes a contribution of 3% of members' basic earnings, which is required to eliminate the deficiency over a period of three years. The employees contribute at a rate of 5% of earnings.

One subsidiary, Office Services Limited, participates in a plan whose benefits are based on career earnings. The latest actuarial valuation, which was carried out as at 31 December 1995, indicated that there was a funding surplus of \$157,000.

(e) Jamaican Floral Exports Limited and its Subsidiaries

The company operates a trustees pension plan for non-unionised employees. The plan is administered by First Life Insurance Company Limited and benefits are based on accumulated contributions.

(f) Scott's Preserves Limited

The latest actuarial valuation which was carried out at 31 December 1989 indicated that the scheme was adequately funded. The employer contributes at a rate of 10% of pensionable earnings while the employees contribute at a rate of 5% of pensionable earnings.

During the year contributions made by the group were \$8,221,000 (1997 - \$12,573,000) and by the company \$402,000 (1997 - \$573,000).

18. Contingency

The Commissioner of Income Tax has assessed one of the subsidiaries on an estimated basis for income taxes totalling \$1,500,000 in respect of the years of assessment 1987 - 1989. No provision for liability has been made in the accounts based on the subsidiary's objection to the matter.

19. Capital Expenditure

Capital expenditure authorised and committed by the group at 31 December 1998, not provided for in these financial statements, amounted to:

Group & Company	
1998	1997
\$1000	\$1000
<u>1,710</u>	<u>16,831</u>

20. Assets under Management

Assets under management, which are not beneficially owned by certain subsidiaries, but which are managed by these subsidiaries on behalf of investors, have been excluded from the consolidated balance sheet. At the balance sheet date, the book value of these assets amounted to \$4,444,698,000 (1997 \$2,113,690,000).

21. Comparative Information

Certain comparative amounts have been reclassified to conform with current year presentation.
